

Submission on the Ministry of Transport's discussion paper "Moving the light vehicle fleet to low emissions: discussion paper on Clean Car Standard and Clean Car Discount"

This submission is from **Harbour Asset Management Limited** – a New Zealand owned and operated funds management company whose investment philosophy includes promoting best-practice Environmental, Social and Governance (ESG) practices among listed companies and relevant stakeholders. This encompasses advocacy for the adoption of clean transportation.

Harbour manages over \$5.1bn for New Zealand clients including many KiwiSaver schemes.

Our primary focus in this submission is to promote adoption of electric vehicles, principally in the light vehicles fleet, but also more medium-term, in the heavier fleet. We support the policy direction of the Clean Car Discount, but feel that the proposed hurdles and timeline lack aspiration if the true intention is to speed up a move towards a low carbon fleet.

The proposed delay in implementation is deeply concerning as it strongly disincentivises uptake of electric vehicles in the interim; and will likely lead to an acceleration in sales of big SUVs and utes until the feebate scheme is implemented.

We have selectively addressed the questions in the Submission Guide and will answer those that we have specific views on that might deviate from the proposal.

Question 1: *Is the Clean Car Standard appropriate for New Zealand?*

Yes, New Zealand lags the OECD and we now have a chance to take leadership in changing the vehicle fleet towards a more sustainable future. The targets need to be more aspirational given that New Zealand's import-partners already have fuel efficiency standards that ensure imported cars to New Zealand will comply with those standards. To speed up transport de-carbonisation, the NZ Clean Car Standard target needs to be stricter than import-partner standards.

Question 2: *Is an average emission target of 105g CO₂/km by 2025 an appropriate target?*

No, this target lacks aspiration and will happen organically given that our major import partners already have emission targets that are far lower than that of the proposal for New Zealand (i.e. we will import their standards automatically).

Setting the target lower would show best-practice leadership and signal a genuine ambition to decarbonise the transportation sector.

An aspirational target of 60-70g of CO₂/km by 2025 would send a much stronger signal of policy intentions and genuine willingness to decarbonise the transport fleet.

Question 7: Do you support the time-frame for the phase-in period?

No, it is our strong view that the phase-in should start sooner (both CCS and CCD). New Zealand significantly lags the OECD when it comes to CCS and the proposed delay serves a disservice to decarbonisation.¹ A 2020 start to phase-in would be our preference – especially with respect to reporting requirements. Then the scheme could be activated in 2021 with compliance penalties no later than 2022.

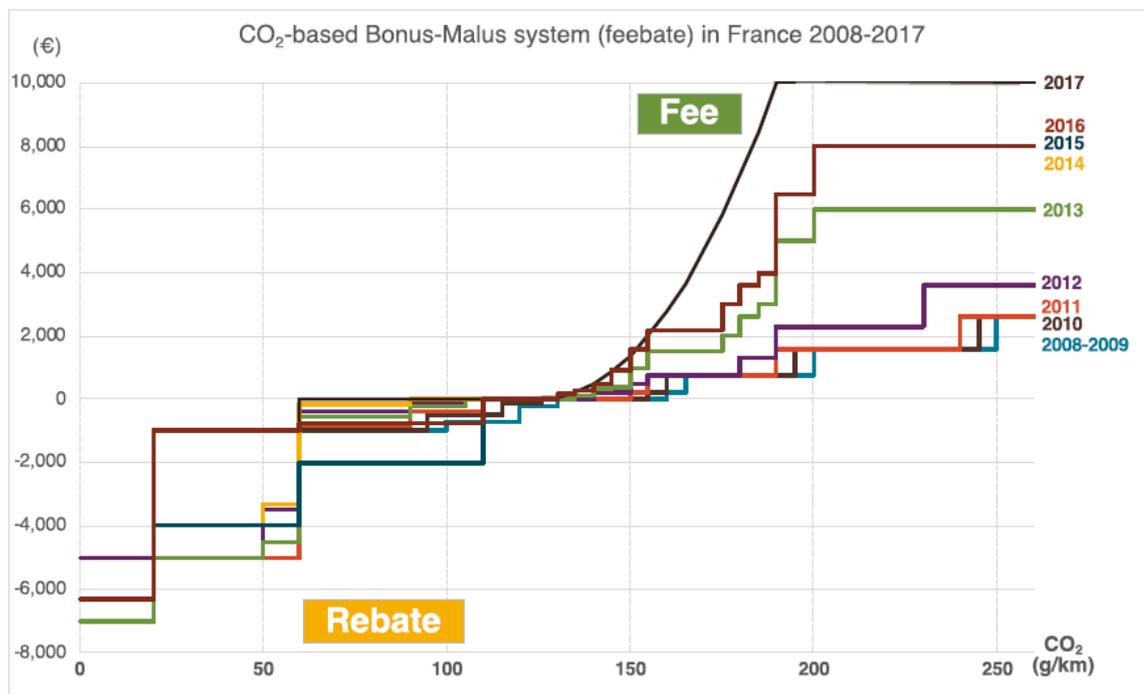
Question 20: Do you think the Clean Car Discount (CCD) is appropriate for NZ?

Yes and no: We fully support a Clean Car Discount and an associated progressive CO2-linked penalty, however suggest a steeper penalty curve and total removal of the dollar-cap (\$80,000) would encourage a much more meaningful speed of adoption towards cleaner vehicles.

Whilst the preference would be to see New Zealand take a lead from Norway with respect to a progressive penalty regime for higher CO2 emissions, the French Bonus-Malus system is also a great case-study.

France adopted a similar scheme to what is proposed in New Zealand. France has since the 2008 introduction of the scheme, adjusted the rebates and fees several times to strike a balance between strong EV uptake and fiscal neutrality (in fact, a small fiscal surplus has been achieved in most years except the initial three years of the scheme).

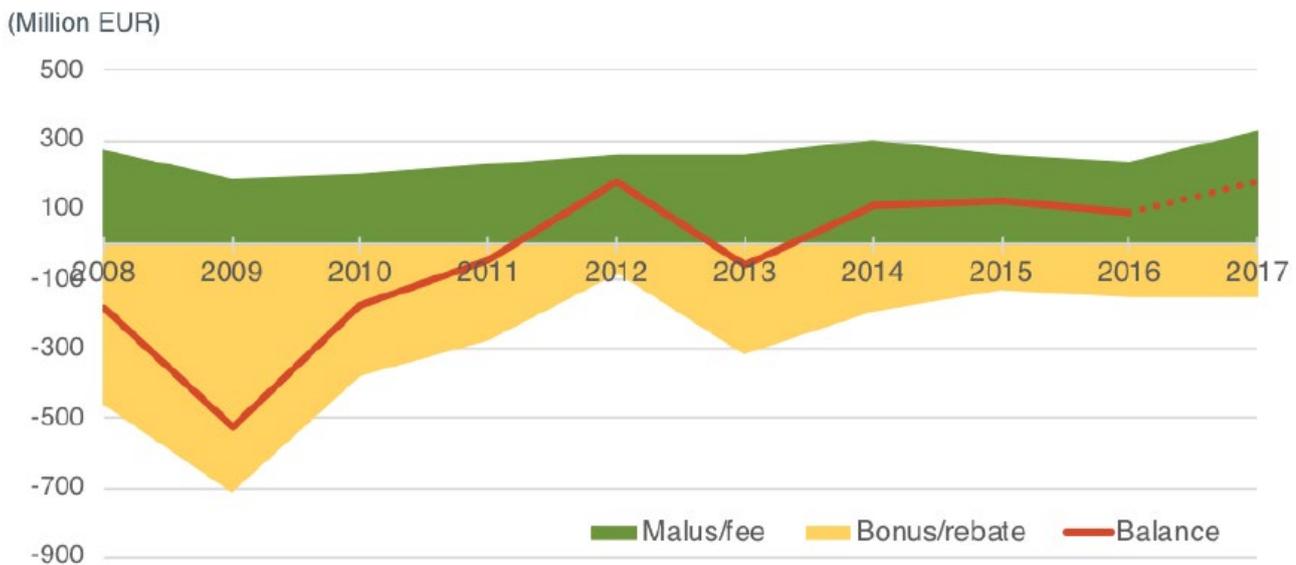
The French scheme uses the fees of the higher-emitting vehicles to fund the rebates of low and zero emitting vehicles. The French experience is that steeper fees for CO2 emitting vehicles affords bigger rebates for zero emitting vehicles and has generated more sustainable fiscal surpluses. These are the outcomes we hope New Zealand will achieve.



Source: ICCT

¹ New Zealand, Australia and Russia are the only three OECD countries with no fuel efficiency standards

Revenue and cost of France Malus-Bonus (feebate) system



Note: Rough calculation, does not take account of separated bonus for hybrid vehicle from 2008 to 2014. 2017 budget balance is estimated based on 2016 fleet structure.

Source: ICCT

This brings us to our biggest concerns with the proposed CCD: the dollar cap and the delayed implementation.

New Zealand is over-indexed in big ICE vehicle imports (SUVs and utes). These are the vehicles with the highest CO₂ emissions (relative to smaller, more fuel-efficient vehicles) and the reality is that most of the alternative electric vehicles available in the next few years have a sticker price significantly in excess of \$80K.

Whilst the \$8,000 maximum discount in percentage terms gets relatively smaller as the sticker price increases, it will no doubt have a positive marginal impact on buyer intentions and help bridge the sticker price gap that puts most buyers off from buying these electric vehicles. Over time, cost parity will get closer between EVs and ICEs, but this is in our view, a **policy error** to carve out the highest polluting vehicles from the scheme in the guise of equality and fairness. If the true policy objective is carbon reduction, this proposal is at odds with intentions.

The delay of implementation is also likely to accelerate the imports of high-emitting vehicles to front-run the CO₂ fees. Again, this is starkly at odds with an urgent desire to decarbonise the light vehicles fleet and will only make the problem linger for longer.

According to The Green Vehicle Guide (An Australian Government Initiative), popular larger personal vehicles in New Zealand, such as the Toyota Highlander 3.5 litre SUV emits over 200g CO₂/km and popular ute Toyota Hilux emits 186-206g of CO₂/km at combined use. Whilst ute alternatives are few at this stage, there is certainly increasing choice in the SUV space where pure electric vehicles are increasing.

We fear that the dollar cap, coupled with the delayed implementation, will perversely be the driver of increased demand for high emission vehicles.

Question 21: *is the emission benchmark of 105g CO₂/km by 2025 an appropriate one to have for the CCD?*

No – see answer to question 2

Question 22: *Do you think the level of the fees and discounts in the example CCD schedules would increase demand for low-emission vehicles?*

At the margin yes, but it is not enough to drive change.

The biggest barrier to EV take-up is the sticker price differential (up front cost) and we would highly promote a steeper feebate regime (ideally Norwegian model, although the French model is also acceptable).

Question 28: *Do you support the proposal to apply the fees and discounts directly at the point of vehicle purchase?*

Yes. At point of purchase, it is more visible to the buyer and should also be an easier administrative task to manage.